

# SUMMARY ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Nakano Analyst: LuAnna Hass Bill Number: AB 660

Related Bills: See Prior Analysis Telephone: 845-7478 Amended Date: May 16, 2001

Attorney: Patrick Kusiak Sponsor: \_\_\_\_\_

**SUBJECT:** Research Expenses Credit/Conform to Federal Alternative Incremental Credit

DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended \_\_\_\_\_.

X AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced/amended \_\_\_\_\_.

FURTHER AMENDMENTS NECESSARY.

DEPARTMENT POSITION CHANGED TO \_\_\_\_\_.

X REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED February 22, 2001, STILL APPLIES.

OTHER - See comments below.

## SUMMARY

This bill would increase the alternative incremental research expense credit (AIRC) to be in conformity with the federal credit percentages as of January 1, 1998.

## SUMMARY OF AMENDMENT

The May 16, 2001, amendments would delete the language that increased the current state AIRC percentages to the current federal percentages of 2.65%, 3.20%, and 3.75%. Therefore, this bill would increase the state credit percentages to equal the federal credit percentages as of January 1, 1998. The state percentages would become 1.65%, 2.2%, and 2.75%.

Except for a new revenue estimate, the remainder of the department's analysis of the bill as introduced February 22, 2001, still applies. The department no longer has implementation concerns with this bill.

## POSITION

Pending.

Board Position:

<u>      </u> S	<u>      </u> NA	<u>      </u> NP
<u>      </u> SA	<u>      </u> O	<u>      </u> NAR
<u>      </u> N	<u>      </u> OUA	<u>      </u> X PENDING

Legislative Director

Date

Brian Putler

05/30/01

## **ECONOMIC IMPACT**

### Revenue Estimate

This bill would result in revenue losses as follows:

Estimated Revenue Impact of AB 660 As Amended May 16, 2001 Effective for taxable years beginning on or after 1/1/2001 Enacted after 6/30/2001 \$ Millions			
2001-02	2002-03	2003-04	2004-05
-\$5	-\$8	-\$10	-\$11

This estimate does not account for changes in employment, personal income, or gross state product that could result from this measure.

### Revenue Discussion

The above revenue impact was estimated as follows. First, the revenue loss due to AIRC under existing Bank and Corporation Tax Law (B&CTL) was estimated for 1994 using the department's corporate samples as well as other corporate financial data. Next, the revenue loss due to AIRC under the proposed higher credit rates was estimated using the same data. The difference between these two amounts is the B&CTL revenue impact of this bill.

The estimated 1994 revenue losses were extrapolated to future years using reported aggregate research and development credits that were claimed by California corporations from 1994 to 1999, and Department of Finance projected annual growth rates of corporate profits. Finally, the revenue impact under the Personal Income Tax Law was projected to be equal to 5 percent of the B&CTL impact and this amount was added to the corporate impact.

## **LEGISLATIVE STAFF CONTACT**

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